

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6975

BILL NUMBER: HB 1364

NOTE PREPARED: Jan 7, 2012

BILL AMENDED:

SUBJECT: Tax Exemption for Military Pension Benefits.

FIRST AUTHOR: Rep. McNamara

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
☐ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: The bill exempts military retirement pension income from the adjusted gross income tax and makes technical corrections.

Effective Date: January 1, 2013.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the change in the current deduction for military retirement income. The DOR's current level of resources should be sufficient to implement this change.

Explanation of State Revenues: *Summary* - The bill expands the current adjusted gross income (AGI) deduction for military retirement pay beginning in tax year 2013. The fiscal impact of these changes would begin in FY 2014. The estimated revenue loss from each change is reported in the table below.

Fiscal Year	Revenue Loss (in millions of dollars)		
	Retirees 60 and over	Retirees Under 60	Total
2014	(8.7)	(7.2)	(15.9)
2015	(8.8)	(7.3)	(16.1)

The bill increases the current deduction \$5,000 to a full deduction for military retirement income of retirees who are 60 years of age or older. The bill also extends the deduction to military retirement income of retirees who are under the age of 60. Under current statute, the deduction does not apply to this military retirees under 60 years of age. The estimated revenue loss due to the expansion of the deduction is attributable solely to retirees currently reported by the Department of Defense (DOD) as residents of Indiana. It is estimated that the revenue loss from the deduction could grow by 2% annually based on recent annual growth in military retirees in the state and military retirement income. The estimate relating to retirees 60 and over assumes that all these individuals currently claim the \$5,000 deduction.

Background Information - Current statute provides an AGI deduction for the first \$5,000 of income earned by an individual for his or her service in an active or reserve component of the U.S. armed forces, including the National Guard. The \$5,000 deduction also applies to military retirement income or survivor's benefits received by a taxpayer who is 60 years old or older. Also, current statute provides a full deduction for active duty pay earned by members of the Armed Forces Reserve or National Guard in lieu of the deduction for military service income described above. (Note: Combat pay is already excluded from federal gross income and, as a result, is excluded from Indiana AGI.)

In 2011, the DOD reported that 25,345 military retirees during the year reported that Indiana was their state of legal residence. These individuals received an estimated \$526.6 M in military retirement income during the year. The number of military retirees reporting their residence as Indiana has increased by increased by about 1.5% annually since 2007; and the total military retirement income paid to these individuals has increased by about 1.9% annually since 2007. Also, according to DOD data, about 61% of the military retirees in Indiana are 60 years of age or older.

Explanation of Local Expenditures:

Explanation of Local Revenues: Because the expansion of the military retirement income deduction will decrease taxable income, counties imposing local option income taxes could potentially experience a decrease in revenue from these taxes. Based on the current average LOIT rate of about 1.4%, the additional revenue loss due to the increased deduction could total as much as \$6.5 M in FY 2013 and \$6.7 M in FY 2014. This could be lower depending on factors such as marital status and where the individual is stationed.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties with local option income taxes.

Information Sources: U.S. Department of Defense, Defense Manpower Data Center. OFMA Income Tax Return databases.

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